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PRECAMBRIAN SHIELD RESOURCES LIMITED

1979 ANNUAL REPORT

PRO CANADIAN
SHIELD
RESOURCES
LIMITED
1979
ANNUAL REPORT

Precambrian Shield Resources Limited

Incorporated under the laws of the Province of British Columbia.

Thirteenth Annual Report

Directors

Earl E. Curry,
President

Walter E. Clarke,
P.Eng.

R. Ian Kerr,
Business Executive

Howard R. Lowe,
P.Eng.

Stewart D. McGregor,
Barrister & Solicitor

Theodore H. Renner,
P.Eng., MBA

OFFICERS

Earl E. Curry,
President

George R.D. Goulet,
Secretary

Lynn W. Lebbert,
Vice-President, Land
& Assistant Secretary

Wayne E. Moore,
Vice-President, Exploration

Theodore H. Renner
Executive Vice-President

Auditors
Ernst & Whinney, Calgary

Solicitors
McLaws & Company, Calgary

Registrar and Transfer Agent
Guaranty Trust Company of Canada,
Vancouver-Toronto-Calgary

Bankers
The Bank of Nova Scotia, Calgary

Listing
Toronto Stock Exchange

Principal Office
1460 Aquitaine Tower,
540 - 5th Avenue, S.W.
Calgary, Alberta
T2P 0M2

Annual Meeting
The annual meeting of the shareholders will be held on April 18th, 1980 at 11:00 a.m. in the Banff Suite, Calgary Inn, 320 - 4th Avenue, S.W. Calgary, Alberta

To The Shareholders

Precambrian Shield Resources Limited has made significant progress in the expansion of its oil and gas activities and in the continued development of a corporate structure to provide a sound base for growth over the next several years. During the past year, your Company's interests in petroleum lands increased by 220%, the number of wells in which Precambrian participated increased by 290%, and the proven and probable gas reserves increased by more than 500%.

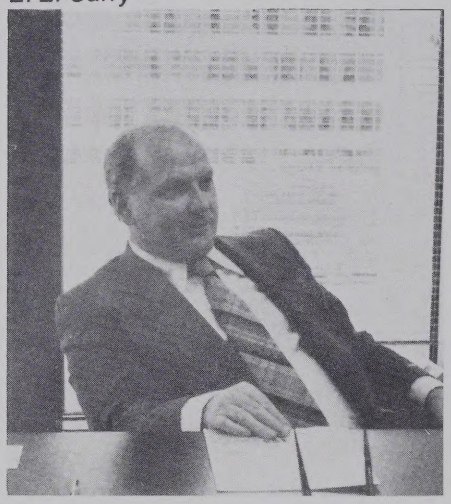
Precambrian participated in the drilling of 44 wells of which 28 were completed as gas wells. Of these gas wells, 26 wells were drilled on lands dedicated to existing gas purchase contracts.

The Company's P & NG land holdings increased from 82,400 gross acres as at November 30, 1978 to 182,500 gross acres at the end of the 1979 fiscal year.

The proven and probable natural gas reserves increased from 5,109 Mmcf at the end of 1978 to 26,745 Mmcf by November 30, 1979. Precambrian's natural gas liquids reserves increased from nominal levels in 1978 to 355,240 barrels of proven and probable reserves as at November 30, 1979. Management is particularly pleased to note that over 87% of the proven and probable gas reserves are associated with lands dedicated to existing gas purchase contracts.

During the past year Precambrian purchased the privately held partner interest in jointly held lands at Eta Lake for $240,000. This acquisition will result in improved cash flows from the Eta Lake field in 1980.

E. E. Curry



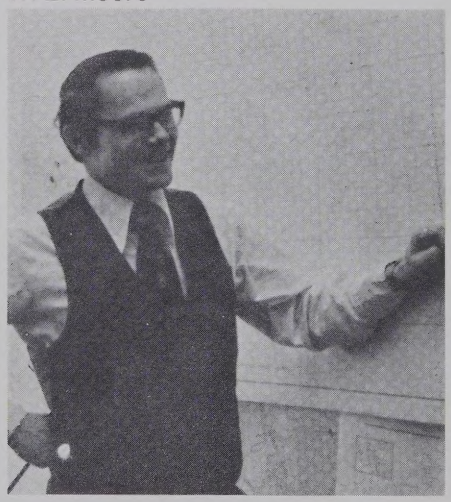
During the coming year the Company expects to participate in the drilling of between 40 and 60 gross wells in Canada. As much as 50% of this drilling will be on lands dedicated to existing gas purchase contracts, and a further 25% of the wells drilled will be on oil prospects. Subsequent to November 30, 1979, the Company's land position was increased by 26,300 gross acres. The Company intends to continue to aggressively increase its land holdings.

Because of gas marketing uncertainties in Canada and due to the more favourable economics enjoyed by the United States oil and gas industry, your Company has decided to establish a U.S. presence in 1980. Our intention is to develop a well managed exploration and production capability over the next several years. Precambrian will enter into a joint venture exploration arrangement with Numac Oil and Gas Limited, and this joint exploration will be operated by Precambrian.

As a result of the unprecedented increase in the price of gold over the past year, a gold prospect held for many years by your company in the Yellowknife area of the Northwest Territories will be the subject of exploration and development. This program, along with continuing exploration for uranium in the Athabasca sandstones of Saskatchewan will constitute the main mining activity of the Company in 1980.

Further information on the oil, gas, mining and real estate interests are discussed in detail in the body of this report.

W. E. Moore



Precambrian is in an excellent financial position to take advantage of exploration and acquisition opportunities. During March 1979, Precambrian completed a financing arrangement, on a private placement basis, whereby Precambrian would issue treasury shares at $2.85 per share for a total of $2.42 million. In January 1980, Precambrian completed a similar financing arrangement with two investors, on a private placement basis, whereby the Company will issue 1,190,500 treasury shares at $4.20 per share for a total of $5,000,100. Similar to the March 1979 financing, the exploration and development writeoffs will be passed on to these investors. The Income Tax Act of Canada contains a provision that permits a company to raise funds through the sale of shares and pass the writeoffs to the investor. Further details on this financing technique are contained in the financial section of the report. Management of your Company is of the opinion that this type of financing has been advantageous to Precambrian because it permits the Company to quickly build assets by maintaining ambitious exploration and development programs while at the same time remaining largely debt free. Precambrian's net working capital after giving effect to the January 1980 financing stands at approximately $5,000,000. Precambrian has also negotiated a substantial bank line of credit which can be used to augment working capital.

Precambrian intends on complementing its current capital resources with funds originating with a joint venture partner. Using its own resources plus those from the joint venture partner will allow the Company to sustain a $5 to $6 million capital program in 1980.

As a result of increased reserves being recognized at the Company's Eta Lake gas field, cash flows from this source will increase substantially in 1980. Near the end of 1980, the Company anticipates that the construction of a gas plant in East Central Alberta will be completed and consequently significant additional cash flow will contribute to a further improvement in earnings in 1981.

During the year the Company was successful in attracting senior level personnel to provide the management core for further growth. Mr. W.E. Moore, Vice-President - Exploration brings to the Company 22 years of exploration experience. Mr. L.W. Lebbert is the Company's Vice-President, Land and Assistant Secretary and brings 32 years of land experience to our management group. Both of these gentlemen were in senior management capacities prior to joining Precambrian. Mr. G.R. Travis is the Controller and brings senior level accounting experience to Precambrian's financial management.

Since the year end, Mr. Robert Ian Kerr of Agincourt, Ontario was appointed to the Board of Directors. Mr. Kerr is Vice-President of W.E.P. Investments Ltd. of Toronto and brings a strong financial background to your Board. To facilitate the appointment of Mr. Kerr and in line with the Company's desire to have additional outside Board representation, Mr. John D. Curry, a director of Precambrian since the inception of the Company, has resigned from the Board. Mr. Curry's contribution to the advancement of the Company is gratefully acknowledged. His geological talents and lengthy mining experience will continue to be at the disposal of the Company.

The Company's successfully concluded year would not have been possible without the diligent and enthusiastic efforts of its staff. This effort is sincerely appreciated. We also wish to express our appreciation to the Shareholders for their active interest and support.

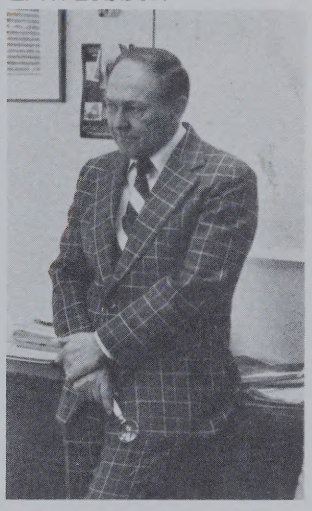
Respectfully Submitted on Behalf of the Board:

Earl E. Curry
President

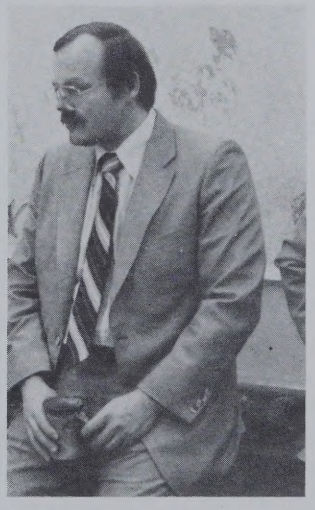
T. H. Renner,
Executive Vice-President

March 12, 1980
Calgary, Alberta

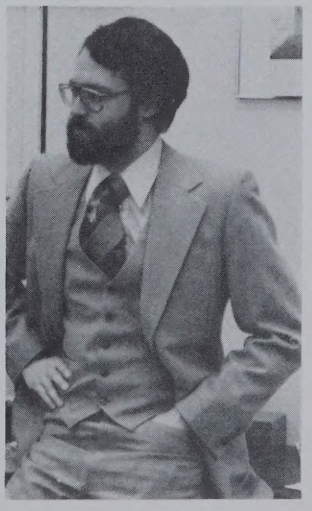
L. W. Lebbert



T. H. Renner



G. R. Travis



Oil and Gas

Alberta

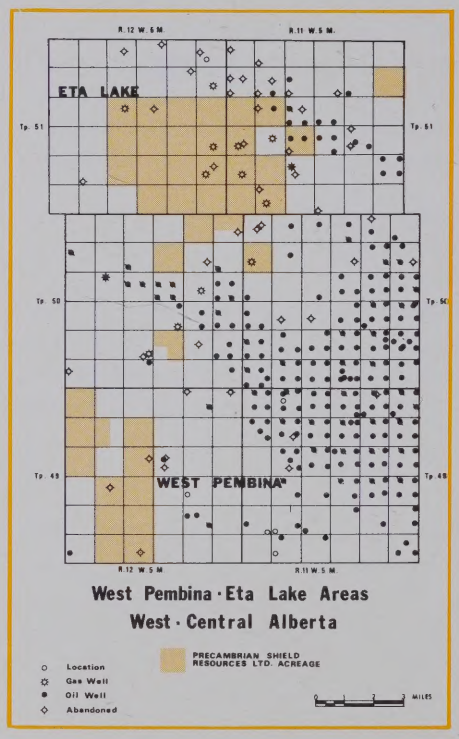
Eta Lake — West Pembina Areas

During the past year Precambrian has been active in the acquisition of additional land interests in the Eta Lake and West Pembina areas. The Company's exploration exposure in these areas was increased from an interest in 16,960 gross acres of shallow and deep rights; to an interest in over 25,400 acres of shallow and deep rights as of the date of this report. The increase was due primarily to the purchase in February, 1980 of the West Pembina acreage block where Precambrian's working interest is 33⅓%.

During the 1979 fiscal year Precambrian increased its working interests in the producing gas wells and undeveloped acreage at Eta Lake through the purchase of a privately held partner interest in this acreage block. The working interest of the Company in the Gething rights at Eta Lake will be further improved as a result of current farm-in activity. Precambrian's working interests in wells and lands in this Eta Lake block now ranges from over 6% to almost 30%. In addition, the Company holds an 18.7% working interest in the Eta Lake gas plant which has a rated capacity of 5 Mmcf/d.

Precambrian is continuing to monitor the deep Nisku exploration in this area. Although extensive seismic surveys have been conducted on the Company's deep acreage, no drillable Nisku anomalies have been identified. Because the lands are in close proximity to Nisku discoveries to the northeast and southwest, Precambrian will continue to maintain its current interests in these deep Nisku rights.

During the past year Precambrian participated in the drilling of two



step-out wells, both of which were cased for Gething gas production. The Company's working interest in both of these wells is 29.94%. Consequently, Precambrian now has working interests ranging from 14.9% to 29.94% in 7 Gething gas wells.

The Company's acreage in the Eta Lake block is dedicated to an existing gas sales contract. Effective February 1, 1980, the gross reserves recognized by TransCanada Pipelines for the Eta Lake Gething gas field were increased from 22.5 Bcf to 36.5 Bcf. The daily contract rate was consequently increased from 3 Mmcf/d to 5 Mmcf/d. This higher rate will be effective for the period February 1, 1980 to November 1, 1981. To meet this increased contract rate, two additional wells will be tied-in for production in 1980. The Company and its partners have conducted a plant performance test, and consequently expect to make plant modifications in 1980 designed to increase the plant's current rated capacity of 5 Mmcf/d.

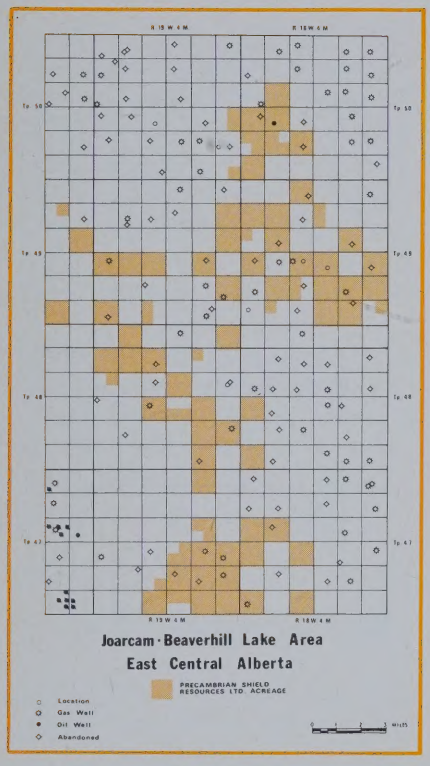
During 1980 Precambrian expects to drill two wells on farmout acreage at Eta Lake. The primary objective will be the Gething Formation being produced in directly offsetting locations. In addition, a well will be drilled on the recently acquired West Pembina acreage block. Precambrian continues to maintain an active land acquisitions posture in this area, and further wells may be drilled if current farmin negotiations are successfully concluded.

East Central Alberta

During 1978, Precambrian entered into a Joint Venture Exploration Agreement which will expire on September 1, 1980. The Joint Venture Agreement Area is the subject of an existing area gas purchase contract. Any lands acquired and drilled on this block will have early access to either gas markets or "take or pay" payments. Consequently, the joint venture partners will continue to maintain an aggressive land accumulation and drilling program in this area in 1980.

During the past year, drilling has been concentrated in the Joarcam Beaverhill Lake, Hardisty and Holmberg areas. The joint venture partners have drilled 32 wells in the Agreement Area and have completed 24 wells for gas production. Precambrian's working interest in these wells ranges from 6% to 25%.

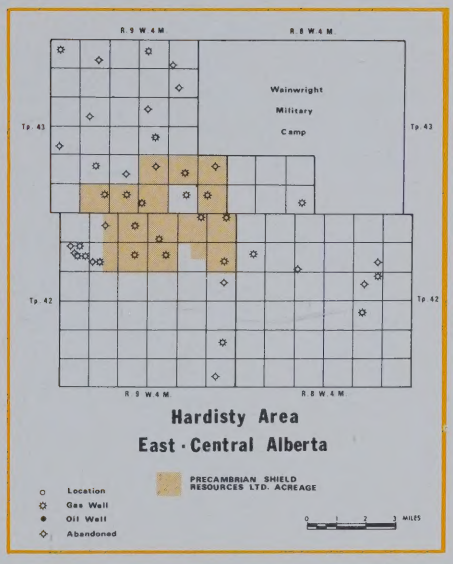
In the Joarcam-Beaverhill Lake area, Precambrian participated in the drilling of 15 wells of which 10 were successfully completed as gas wells. Drilling, primarily of a developmental nature, will continue in 1980. During the year,

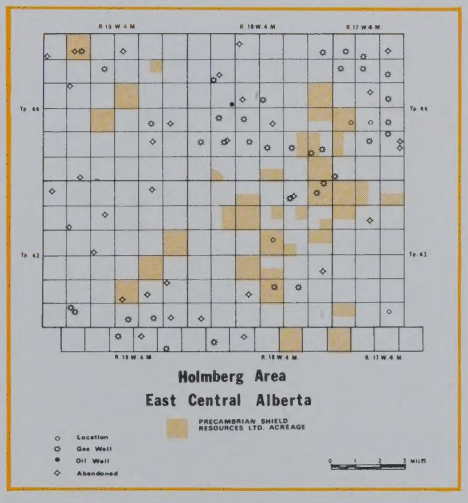


TransCanada Pipelines established an initial reserves recognition in this area so that the gas wells drilled in 1979 are expected to go on stream near the end of 1980. Currently, a gas plant with a capacity of at least 10 Mmcf/d is being contemplated in this acreage block. Construction is expected to be completed near the end of 1980.

In the Hardisty area, Precambrian participated in the drilling of 10 wells, and all 10 were successfully completed as gas wells. A final well may be drilled in 1980. A number of these wells were included in the 1979 reserves determination, and hence will be on stream in 1980 once facilities have been put in place. The Company's working interest ranges from 6¼% to 12½%.

Precambrian participated in the drilling of 5 wells in the Holmberg area, and successfully completed 4 of these wells for gas production.





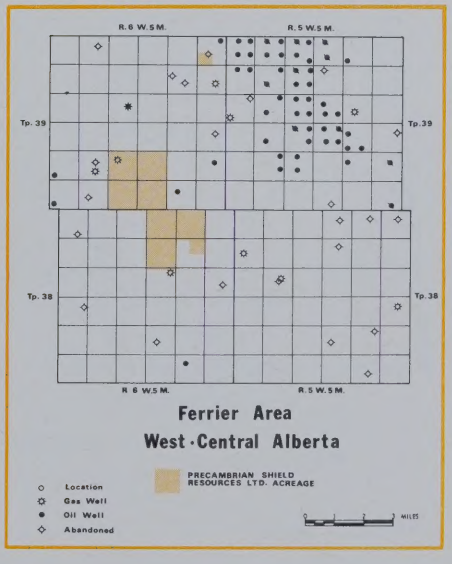
The joint venture partners will be active in the accumulation of additional exploratory acreage in this area in 1980 which will lead to further drilling. Precambrian's working interest in this area ranges from 6¼% to 25%.

In addition to the above, a gas well was drilled at each of Royal and Killam.

Precambrian and its partners expect to maintain an active drilling program in 1980 in this east central Alberta region. The gas purchase contract covering this area will allow the Company to participate in an aggressive relatively low risk exploration program where the discoveries can be translated into cash flow relatively quickly.

Ferrier

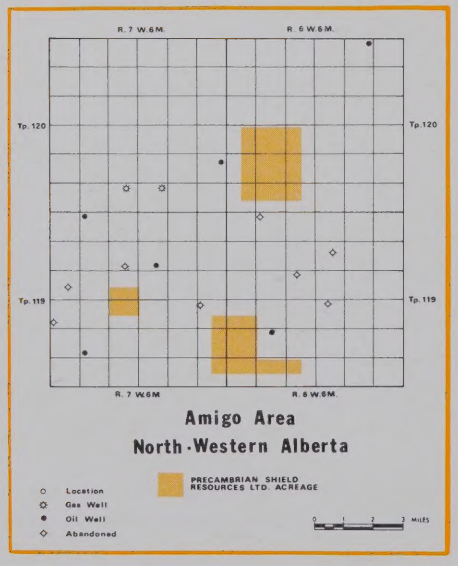
Precambrian acquired a 10% working interest in 4,800 acres of P & NG rights at land sales during the year. Partners in the acquisition were Dome, Zephyr, Northstar and others. During the year the well, Zephyr et al Ferrier 14-9-39-6 W5M was drilled and successfully completed as a Glauconite gas well. This area has been actively explored by others during the year and as a result 2 gas wells and one oil well directly offset the Company's lands. Once the information pertaining to these offset wells has been released, a final decision regarding further drilling will be made. The property will be fully developed once gas markets materialize.



Amigo Area

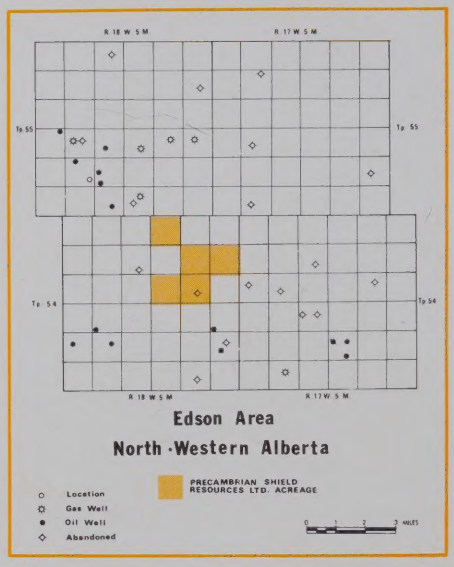
Precambrian has joined in an extensive joint exploration program for oil bearing Keg River reefs in the Amigo area of northwestern Alberta. During the past year a total of 200 miles of seismic have been reprocessed and a further 50 mile

seismic survey was completed. As a result of this geophysical data, Precambrian and its partners have committed to drill two farm-in wells. The first farm-in well is currently drilling, and the second well will be drilled in the final quarter of 1980. In addition, a section of land (N/2 of 16 and S/2 of 21, Twp. 119, Rge. 7, W6M) was purchased at an October, 1979 land sale, and a well is planned on this section in the final quarter of 1980. Precambrian is maintaining a 30% working interest in this exploration program. This area has recently experienced renewed exploration interest as evidenced by the relatively high acreage prices paid for crown lands. For Precambrian this area represents an opportunity to drill for oil reserves with the prospect of significant cash flows if drilling is successful.



Edson Area

Precambrian holds varying interests between 15% and 25% in 3,200 acres of P & NG rights. During the past year Cardium oil wells have been drilled to the northwest and southeast of the Company's acreage. In addition, the Lower Cretaceous zones appear to have gas potential. Currently one well is being planned for late 1980, subject to rig availability. This area represents an opportunity to drill for light gravity oil reserves where offset wells have demonstrated productive capability of 150 BOPD.

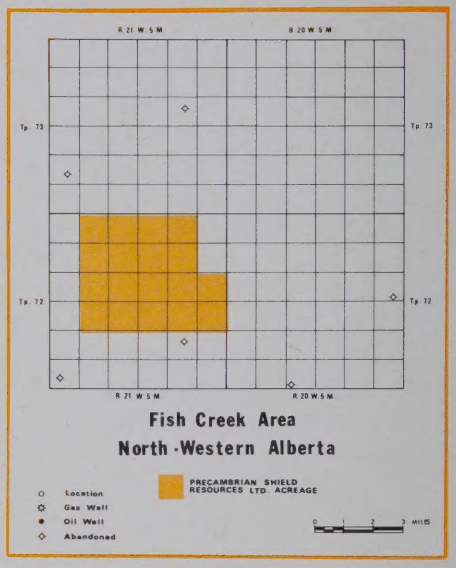


Fish Creek

In September, 1979 Precambrian purchased a 33⅓% working interest in an 11,520 acre P & NG licence. The purchase was predicated on seismic and subsurface mapping, and since purchase of the lands further seismic data has been secured. The initial exploratory well will likely be drilled in the third or fourth quarter of 1980. This acreage represents a multiple horizon drilling opportunity with both oil and gas potential in a large acreage block.

Lubicon (TP. 84, R. 13 W.5M)

Precambrian and its partners were successful in obtaining a farm-in in this area and the Company's cost exposure on the initial well, which is currently drilling, is 33⅓%. The lands are offset by a large crown acreage position and hence provides additional leverage for Precambrian should a discovery be made.



Bison (Tp.95, R.12 W.5 M)

Because of lack of available drilling rigs, the drilling planned for late 1979 has been postponed to March, 1980. Two wells will be drilled here in 1980. Offsetting crown lands will be posted, timed to this drilling. The Bluesky-Gething gas sand in this area appears to be a blanket type sand and hence the 25,400 acre block represents a significant reserves potential.

Tangent (TP. 79, R. 25 W.5M)

Precambrian has a 25% interest in a farm-in involving a total of 12,000 acres of P & NG rights. The Company and its partners are committed to drill two wells during 1980. The wells are being drilled to evaluate the Mississippian zone with secondary objectives in the Triassic Montney and the Lower Cretaceous Bluesky - Gething.

Other Areas

Precambrian has a 40% working interest in three sections of lands acquired to follow-up the Numac et al Judy S 4-6-63-11 W5M gas discovery made last year. A well is being planned for this summer and if successful could result in further acreage acquisitions later this year.

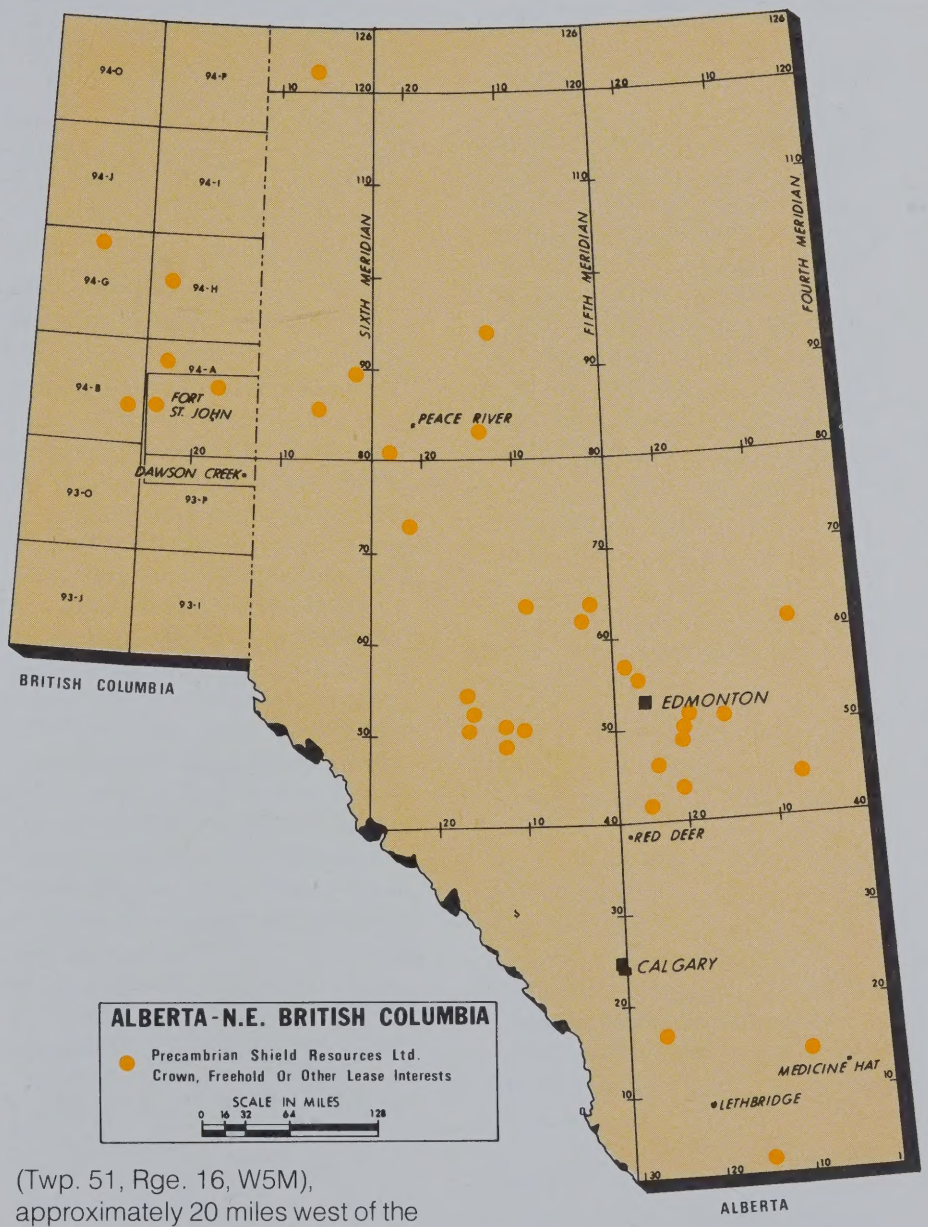
A 33⅓% working interest in 5,760 acres was acquired at a fall, 1979 land sale in the Hines area of Alberta (Twp. 84, Rge. 5, W6M). Additional seismic evaluation of the lands is planned for the winter of 1980.

At Bonnyville, Precambrian acquired working interests of between 50% and 100% in 1,760 acres of lands prospective for gas and heavy oil in the Lower Mannville sequence. Two wells are planned for the summer of 1980, and successful wells would lead to the acquisition of additional crown acreage.

Precambrian will participate (with a 30% working interest) in a well which will evaluate the Cardium oil potential of a section of land acquired in the East Pembina area (Twp. 49, Rge. 6, W5M) in the third quarter of 1979.

Recently Precambrian acquired a 100% working interest in a 4,800 acre P & NG licence at Milk River (Twp. 1, Rge. 19, W4M) on the Canadian-United States border. The Company intends on acquiring seismic data to complement its subsurface mapping. Since a 100% working interest is currently held, the Company is planning to have the lands drilled at no further cost to it and consequently reduce its working interest to 50 percent.

Precambrian continues to hold prospective acreage at Wolf Creek

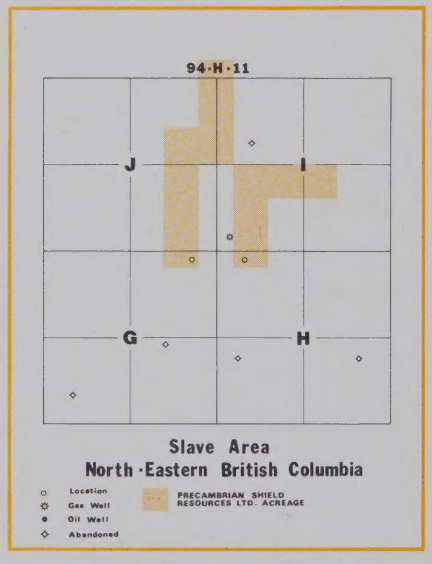


(Twp. 51, Rge. 16, W5M), approximately 20 miles west of the Company's Eta Lake properties. The working interest in this property (2,080 gross acres) ranges from 15% to almost 30%. Recent offsetting land sales and offset drilling have substantially enhanced the value of the acreage. Subsurface mapping studies have been initiated, and seismic data may be acquired later. Because the primary objective is gas, a drilling decision will be deferred until gas markets materialize.

British Columbia

Slave

Precambrian has a 16.67% working interest in an 8,205 acre drilling reservation. Because of lack of rigs, a drilling start has been postponed until early March, 1980. If the first well is successful, a second earning well will be drilled before the end of 1980. As the accompanying map indicates, a gas well directly offsets the initial drilling location. The well will help evaluate offsetting crown acreage.

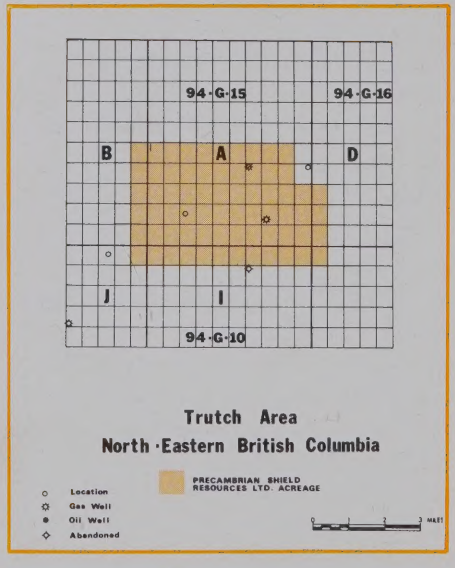


Trutch

During 1979, Precambrian secured a farmin and has drilled the initial commitment well. The Company now has a continuing option to earn the balance of the farmout lands by drilling an additional three wells. At least one option well will be drilled. The results of the first well encouraged the Company and its partners to purchase an additional 7,400 acres of P & NG rights at a January, 1980 land sale. Precambrian now has a 15% working interest in over 11,400 gross acres on this project.

As the accompanying map shows, two wells are currently being drilled at locations which directly offset Precambrian's lands. Directly offsetting crown lands have been posted for an April, 1980 land sale, and Precambrian may participate in a bid for these lands. During the remainder of 1980 Precambrian expects to participate in the drilling of at least three additional wells. The property will be fully developed once a gas sales contract is secured.

The Trutch lands lie a short distance off the Alaska highway making the area relatively accessible. Other operators in the field have made initial representations to the appropriate British Columbia government agency to have a gas processing plant constructed to process gas from this area. While it is premature to be definitive regarding the location and size of such a plant, it does appear that gas may be sold from this area as early as late 1982. To Precambrian this area represents an opportunity to significantly increase the Company's gas reserves. The prospects for gas sales in three years are very good.



Other Areas

Precambrian continues to hold interests ranging from 12½% to 25% in 2,252 gross acres of lands at Rigel. During the year the Company participated in a bid for directly offsetting crown lands which was not successful. The operator of this Rigel property is currently planning the drilling of one well in 1980.

At Sierra-Sahtaneh Precambrian is continuing to maintain its acreage position, and further exploration plans will be formulated once currently confidential offsetting well information is released.

At Goldenrod a lease selection has been made out of the drilling reservation held by the Company. Two gas wells have been drilled on the property and further drilling will be deferred until gas markets become available.

Drilling Activity

During the 1979 fiscal year, Precambrian participated in the drilling of 44 wells, and 28 wells were completed for gas production. Twenty-six of the twenty-eight successful wells will be subject to existing gas purchase contracts so that this drilling success can begin to be translated to cash flow during the next year.

In 1980 Precambrian expects to participate in the drilling of between 40 and 60 wells in Alberta and British Columbia. Approximately twenty of these wells will be drilled on lands currently dedicated to gas purchase contracts, or on lands in British Columbia where gas market prospects are good. An additional ten wells will be drilled on prospects where the primary objective is oil.

Reserves

Based on an evaluation as at November 30, 1979 by Precambrian's staff, the Company's proven and probable gas reserves (before provision for crown and overriding royalties) have increased to 26,745 Mmcf, up from 5,109 Mmcf a year earlier. Precambrian's proven and probable natural gas liquids reserves have increased to 355,240 barrels as at November 30, 1979 versus nominal levels a year earlier.

Precambrian is pleased to note that over 87% of the proven and probable gas reserves are associated with lands dedicated to existing gas purchase contracts.

Precambrian's 1980 program has the potential for increasing reserves by a larger amount than that realized in 1979.

Land

Precambrian continued an active land accumulation program during 1979. As at November 30, 1979 the Company land position is as follows:

	1979	1978
Gross (acres)	**182,500**	82,400
Net to Precambrian (acres)	**36,900**	—

From November 30, 1979 to the date of this report the Company has acquired an interest in an additional 26,300 gross acres of land, raising the total land holdings of the Company to 208,800 gross acres as of this report date.

Precambrian is involved in a number of farm-in negotiations which if successfully concluded will result in a significant further increase in the Company's land holdings.

General

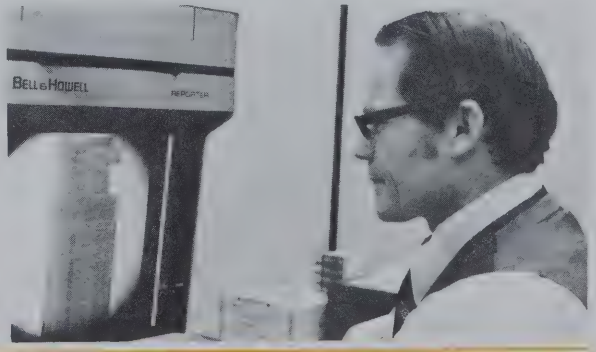
The year ended November 30, 1979 has been both active and successful for Precambrian. The number of wells drilled was up 290% over 1978 and the proven and probable reserves were increased by over 500%. Precambrian expects the coming year to be an equally active drilling year and is optimistic that its reserves will see another significant increase.

The Company is currently negotiating with potential joint venture partners to provide additional risk capital to augment Precambrian's Canadian exploration budget. A capital expenditure of between $5 and $6 million in 1980 is likely. This program will be funded from the Company's working capital and from joint venture sources. It is the objective of the Company to secure such joint venture funding for a three year period.

During the past year Precambrian has attracted senior level exploration, land and accounting personnel to the Company. Precambrian is confident of the positive contribution these new employees will make toward the realization of its asset growth goals. To augment this small core of professionals, Precambrian is utilizing the services of senior level explorationists on a consulting or retainer arrangement. In this way Precambrian is now utilizing over 100 years of geological experience in the development of exploration prospects.

Precambrian has been fortunate in that over 87% of its proven and probable gas reserves have the benefit of existing gas purchase contracts. In the near term we are in a position to translate exploration expenditures into cash flows. The Company anticipates that as much as 50% of the 1980 drilling will be concentrated in areas where gas purchase contracts are in place. A further 25% of anticipated 1980 drilling will be devoted to prospects where oil is the primary objective. The outlook for 1981 suggests that a higher proportion of Precambrian's drilling will be devoted to areas where gas marketing prospects are not immediate. While we are optimistic that current gas export uncertainties will be resolved. Precambrian cannot prudently invest all of its resources in areas where successes remain shut-in for several years.

Immediate access to markets and higher energy prices make exploration in the United States attractive. Although the "dry hole" risk is higher in the United States, this is cushioned by considerably lower land and drilling costs. On balance, the economics of exploration in the United States for a small Canadian exploration company are definitely attractive. As a consequence, Precambrian will begin an exploration effort in that country starting in mid-year 1980. Precambrian will enter into a joint venture exploration agreement with Numac Oil and Gas Limited and the joint exploration will be operated by Precambrian.



W. E. Moore

Mining

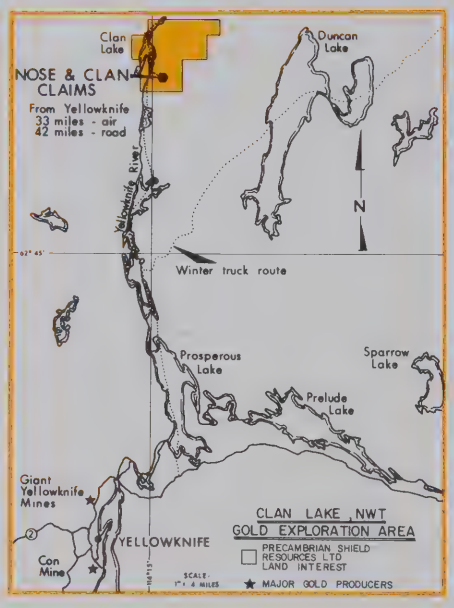
Clan Lake,
Northwest Territories

Since incorporation of the Company in 1966, Precambrian have held a gold property known as the NOSE group, located at Clan Lake some 35 miles north of the City of Yellowknife, in the Northwest Territories. Yellowknife is a well-established gold mining centre. Ownership of the property is shared equally between Precambrian and Numac Oil & Gas Ltd. & associates.

Various work programs have been conducted on the property from the time of its discovery in 1964 and the most recent exploration was carried out in early 1974. Trenching, diamond drilling and bulk sampling have established this property as being a gold prospect of considerable merit. However, like most gold prospects, there was little incentive until recently to continue exploration because of low historic gold prices. Accordingly, the 40 claims were surveyed and brought to lease and further exploration work was deferred until gold mining economics improved.

In 1967 a bulk sample of 1141 tons was mined by open pit methods from a 70 foot shoot in the No. 1 Zone, and subsequently milled at the nearby, then producing, Discovery Mine. The average grade of the sample was 0.423 ounces gold per ton, which at a 97% recovery produced a 468 ounce gold brick.

Diamond drilling of the gold occurrences has not been successful in confirming the grades realized in the bulk sampling, although visible gold was encountered in most holes in each of the zones. The assay results from diamond drilling were generally low and are not reconcilable with surface bulk sampling results;



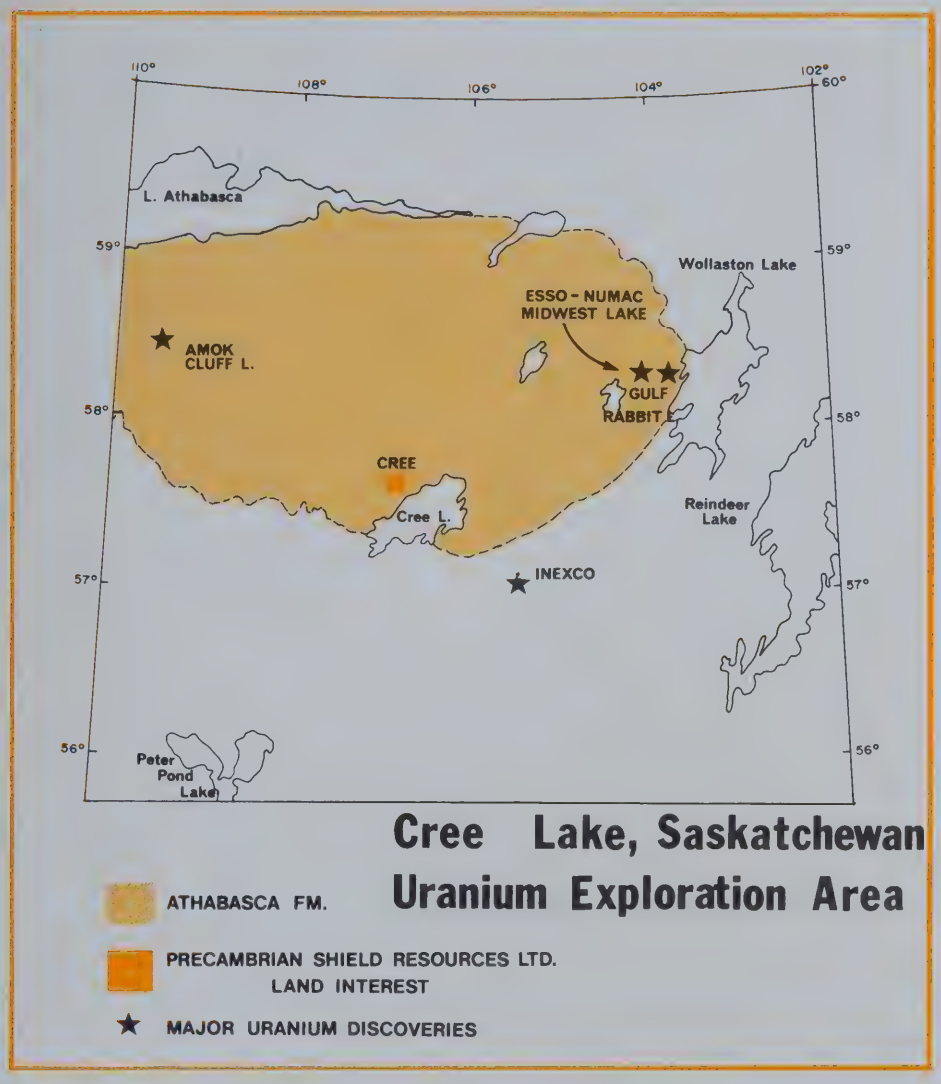
however, some intersections must be considered interesting in the light of present day gold values, i.e. Diamond Drill Hole No. 74-3 graded 0.054 ounces gold and 0.28 ounces silver per ton over a core length of 93 feet which included a 20 foot section grading 0.159 ounces gold and 0.87 ounces silver per ton. Another hole in the same zone returned values of 0.22 ounces gold per ton across 15.1 feet.

Diamond drilling has served to confirm the strength and continuity of the vein zones, some of which average true widths in excess of 30 feet. There is evidence to indicate that the poor drill results are due to the coarse, erratic nature of the gold that is characteristic of the vein zones. An analysis of all assay data accumulated to date indicates that bulk sampling methods, as opposed to diamond drilling, are required to determine a satisfactory grade estimate. Precambrian is currently reviewing a consultant's recommendation that the principal zones be bulk sampled by the driving of a decline tunnel to a depth of at least 150 feet.

An airborne electromagnetic and magnetic survey was carried out some 10 years ago over the NOSE group and adjacent areas and a number of anomalies were located but were not subjected to follow-up investigation on the ground — this combined with known but unexplored mineralized quartz zones provide numerous targets for a regional exploration program.

In February 1980, Precambrian and Numac staked additional claims adjacent to the NOSE group to bring the total holdings from 2000 to approximately 13,000 acres. In addition to any work contemplated on the known NOSE group gold showings, the Company and its partner are now in a position to mount a broad regional program on the much expanded claim holdings.

The scale of the program in 1980 for the Clan Lake properties has not yet been finalized. Third party participation in the project is currently under consideration. Provided gold prices are maintained at a level in excess of $400.00 per ounce, the Clan Lake area has the potential to be an important asset to your Company.



Cree Lake
Saskatchewan

This joint venture uranium project involves two large permits totalling some 365,000 acres located on the southern rim of the Athabasca sandstones, between the Cluff Lake and Key Lake uranium orebodies. Precambrian's partners in the venture are Esso Resources (the operator), Numac Oil & Gas Ltd. and the Saskatchewan Mining Development Corporation. Precambrian can earn a 10% working interest in the entire acreage.

Following an airborne geophysical survey, reconnaissance exploration work was carried out in 1979 which included ground geophysical surveys as well as geochemical and geological programs.

This work provided sufficient encouragement for the Joint Venture to approve an expanded exploration budget for 1980, which will include diamond drilling.

Selwyn Project
Yukon Territory

Precambrian (25% participating interest) and its partners, Cyprus Anvil Mining Corporation and Numac Oil & Gas Ltd. continued to maintain their properties which adjoin the Placer Development Ltd. and Essex Minerals Co. lead-zinc deposits in the Howard's Pass area, 100 miles northeast of Ross River, Yukon Territory. The Placer-Essex deposits are said to contain several hundred million tons grading 8-12% lead-zinc including many higher grade sections.

Exploration work, including diamond drilling, carried out by Precambrian and partners in 1974 provided encouragement but further expenditures have been deferred until more is known about the economics of the Howard's Pass deposits and cheaper transportation to the area is available.

General

During the year, the Company entered into an agreement for the exploration of a gold-silver property on Granville Mountain, located some 45 kilometres east of Grand Forks, B.C. Subsequent diamond drilling provided negative results and the agreement was terminated.

Geochemical reconnaissance and prospecting programs in selected areas of southern British Columbia were conducted by Company personnel during the 1979 field season. No drill targets resulted from this work but some follow-up investigation in certain areas is being contemplated.

Precambrian's mining exploration budget is small in relation to its oil and gas spending levels. However, your Company is continually searching for mining properties of merit. This exposure at the prospect and grass roots stage can be maintained with few people and at nominal cost to the Company.

Real Estate

Bellanca Developments Ltd.

Bellanca Developments Ltd. is the principal commercial real estate developer in the City of Yellowknife. Precambrian holds a 21.6% interest in this Company.

In Yellowknife, capital city of the Northwest Territories, Bellanca owns and operates the following buildings:

- The "Precambrian Building" — a combined 11 storey office tower and 700 seat twin-cinema complex.
- The "Bellanca Building" — a 10 storey office building.
- "Scotia Centre" — 3 levels of retail shopping and offices. The second phase of this development, a 9 storey office tower, is currently scheduled for construction in 1981.

Net rentable space contained in the three buildings is 177,268 square feet. Tenants represent an excellent mix which includes various levels of Government, banks, major mining companies and numerous local business enterprises. Due to rapid expansion of rentable space, Bellanca carried a high vacancy rate in 1979, but an occupancy rate approaching 100% will be achieved by early 1980.

The growth of Bellanca is reflected in the following gross revenue figures:

1977 — $1,310,505
1978 — 2,010,534
1979 — 2,550,000

1980 gross revenues are projected at $3,000,000.

High interest rates over the past year have had a negative effect on Bellanca's earnings as financing has been tied to the prime rate. However, permanent financing on the 3 Yellowknife buildings in the amount of $11,000,000 has recently been negotiated with two major financial institutions and the debt service costs will be substantially reduced in 1980. A recent independent appraisal valued the 3 buildings at $18,000,000.

Bellanca continues to hold an undeveloped 10 acre site in the downtown area of Yellowknife. A 75% interest was held in an entire city block in Whitehorse, Yukon Territory. Development of this property had been under consideration for the past two years. It was decided that Bellanca's interests would be best served by concentrating its efforts in Yellowknife. As a result, the Whitehorse property was sold in February, 1980. This transaction served to further reduce debt service costs and increase the liquidity of the Company.

Bellanca should prove to be a steady source of cash flow for Precambrian in the future.

Christina Lake

This small subdivision located in southern British Columbia generated gross revenues of $100,000 in 1979 and a profit of $36,373. Similar sales are expected in 1980.



Bellanca Building



Scotia Centre



Precambrian Building



Aerial Photograph of Yellowknife

Financial

Precambrian's income from oil and gas sales increased markedly to $146,117 for the year ended November 30, 1979. Total revenues increased to $433,850 as compared to $140,238 for the year ended November 30, 1978.

The net loss was $85,795 for the current year and compares to a loss of $59,086 for the previous year ended November 30, 1978. The loss in the current year is largely due to $237,568 of deferred mining exploration costs which were written off, and because of a $35,150 loss representing Precambrian's equity in losses incurred by Bellanca Developments Limited, an affiliated Company.

The gross revenues and net income in 1980 should be significantly improved because:

- The recently recognized higher reserves level at Eta Lake will result in higher production rates. In addition, Precambrian's higher working interest, due to purchase of additional property interests, will be reflected for the full 1980 fiscal year.
- The write-down of deferred mining exploration costs is expected to decrease substantially in 1980.
- Bellanca will have replaced its bank credit lines with permanent long term funding at significantly lower interest rates. As a result, we expect Bellanca to report positive net income in 1980.

Precambrian's total capital expenditures reached $3.5 million during the 1979 fiscal year. Oil and gas exploration and land acquisitions accounted for $2,920,000, a producing oil and gas property acquisition at Eta Lake accounted for $240,000, petroleum production equipment cost $162,000, and the remainder of $181,000 was employed in minerals exploration.

A major source of capital in the 1979 fiscal year was $2.42 million in gross proceeds realized through the sale of common shares of theCompany in March, 1979. The Income Tax Act of Canada contains a provision that permits a company to raise money through the sale of shares and pass the writeoffs (Canadian Exploration Expense and Canadian Development Expense) to the investor. Precambrian acts as the investor's agent in spending the money and when spent, the investor receives one share of Precambrian for each $2.85 expended. The investor is entitled to the writeoffs which occur as a result of these expenditures while Precambrian retains title to the properties. The funds raised in this financing have now been largely expended on the Company's exploration program.

In January, 1980, Precambrian completed a similar financing arrangement with two investors on a private placement basis, whereby the Company will issue 1,190,500 treasury shares at $4.20 per share for a total of $5,000,100. Precambrian will again pass the exploration and development writeoffs to the investor.

Management of your Company is of the opinion that this type of financing has been advantageous to Precambrian in that it permits the Company to build assets quickly by maintaining an aggressive exploration and development program and remain largely debt free during the period required to bring cash flow to significant levels.

The working capital at the end of the 1979 fiscal year stood at $362,000. The most recent financing has increased working capital to approximately $5,000,000. Precambrian has also negotiated a substantial bank line of credit to augment working capital, and hence the Company is well positioned to take advantage of exploration and acquisitions opportunities.

During 1980, Precambrian is optimistic that additional risk capital can be brought to the Company's exploration program by finalizing a proposed joint venture exploration agreement.

Consolidated Balance Sheet

Precambrian Shield Resources Limited and Subsidiary

	November 30 1979	1978
Assets		
Current Assets		
Cash	**$ 42,966**	$ 81,192
Term deposits	**1,142,500**	1,007,966
Accounts receivable	**309,786**	15,415
Note receivable from affiliated company	**54,166**	-0-
Land held for resale and development — at cost	**79,550**	143,151
Total Current Assets	**1,628,968**	1,247,724
Investments — Note A		
Affiliated company	**201,447**	236,597
Joint venture	**-0-**	84,352
	201,447	320,949
Property and Equipment — Note A		
Petroleum and natural gas properties — at cost Less accumulated depletion (1979 — $58,255; 1978 — $29,120)	**5,542,290**	2,413,044
Mineral claims and related exploration and development expenditure — at cost	**403,915**	460,245
Production and other equipment — at cost Less allowances for depreciation (1979 — $50,551; 1978 — $21,558)	**334,073**	200,969
	6,280,278	3,074,258
	$8,110,693	$4,642,931
Liabilities and Shareholders' Equity		
Current Liabilities		
Accounts payable	**$ 966,634**	$ 95,006
Bank loans — secured — Note D	**300,000**	-0-
Total Current Liabilities	**1,266,634**	95,006
Deferred Production Income	**22,841**	-0-
Shareholders' Equity		
Share capital — Notes C and K Common shares without par value — authorized 10,000,000 shares; issued, 1979 — 7,413,921 (1978 — 7,173,921)	**5,146,399**	4,480,118
subscribed and allotted; to be issued on completion of exploration obligations, 610,000 shares	**1,692,807**	-0-
(Deficit) retained earnings	**(17,988)**	67,807
	6,821,218	4,547,925
Contingent Liability — Note E		
	$8,110,693	$4,642,931

See notes to consolidated financial statement.

Approved by the Board:


, Director


, Director

Consolidated Statement of Loss and Deficit

Precambrian Shield Resources Limited and Subsidiary

	Year Ended November 30 1979	1978
Income		
Petroleum and natural gas sales net of royalties	**$146,117**	$ 36,726
Interest	**181,673**	79,312
Land sales	**100,000**	17,000
Administration	**6,060**	7,200
	433,850	140,238
Expenses		
Oil and gas operating costs	**34,882**	3,105
Cost of land sold	**63,627**	7,235
General and administrative — Note B	**80,578**	42,165
Depreciation and depletion	**58,488**	50,681
Deferred exploration and related expenditures written off	**237,568**	233,378
Loss on disposal of joint venture	**9,352**	-0-
	484,495	336,564
Loss Before Equity in Earnings of Joint Venture and Affiliated Company	**(50,645)**	(196,326)
Equity in earnings of joint venture	**-0-**	120,749
Equity in earnings (loss) of affiliated company	**(35,150)**	16,491
	(35,150)	137,240
Loss for the Year	**(85,795)**	(59,086)
Retained earnings (deficit) at beginning of year		
As previously reported	**(12,798)**	126,893
Change in accounting practice — Note B	**80,605**	-0-
As restated	**67,807**	126,893
(Deficit) Retained Earnings at End of Year	**$(17,988)**	$ 67,807

See notes to consolidated financial statement.

Consolidated Statement of Changes in Financial Position

Precambrian Shield Resources Limited and Subsidiary

	Year Ended November 30 1979	1978
Source of Working Capital		
Loss for the year	**$ (85,795)**	$ (59,086)
Charges to income not requiring current outlay of working capital: Principally deferred exploration expenditures written off, depreciaton and depletion	**340,198**	149,457
Total from Operations	**254,403**	90,371
Issuance of share capital		
Cash — Note C	**2,359,088**	1,718,215
Acquisition of subsidiary	**-0-**	1,416,698
	2,359,088	3,134,913
Proceeds from disposal of equipment	**-0-**	3,502
Proceeds from sale of joint venture	**75,000**	-0-
Deferred production income	**22,841**	-0-
Total Provided	**2,711,332**	3,228,786
Use of Working Capital		
Petroleum and natural gas properties	**3,158,381**	2,358,430
Production and other equipment	**162,097**	174,444
Mineral claims and related exploration and development	**181,238**	90,719
Total Used	**3,501,716**	2,623,593
(Decrease) Increase in Working Capital	**(790,384)**	605,193
Working capital at beginning of year	**1,152,718**	547,525
Working Capital at End of Year	**$ 362,334**	$1,152,718
Represented by		
Current assets	**$1,628,968**	$1,247,724
Less current liabilities	**1,266,634**	95,006
	$ 362,334	$1,152,718

See notes to consolidated financial statement.

Notes to Consolidated Financial Statement

Precambrian Shield Resources Limited and Subsidiary

November 30, 1979

Note A — Significant Accounting Policies

Principles of Consolidation: The financial statement includes the accounts of Precambrian Shield Resources Limited and its wholly owned subsidiary, Howard Resources. Ltd.

Investment in Affiliated Company: The Company follows the equity method of accounting for its investment in Bellanca Developments Ltd. Under the equity method, the Company's investment is carried on the balance sheet at cost and is adjusted for its undistributed share in earnings or losses. The Company's share of net earnings or loss of Bellanca Developments Ltd. is reflected to December 31, 1979, the fiscal year end of the affiliate, rather than the November 30, 1979 year end reported in Precambrian Shield's financial statement.

Investment in affiliated company:

	November 30 **1979**	1978
Bellanca Developments Ltd.		
Shares — representing 21.6% interest		
Cost	**$ 65**	$ 65
Equity in accumulated earnings	**71,382**	106,532
	71,447	106,597
Debentures	**130,000**	130,000
	$201,447	$236,597

Petroleum and Natural Gas Properties: The Company uses the full cost method of accounting for petroleum and natural gas interests. Under this concept, costs capitalized include land acquisition costs, geological, and geophysical expenditures, rentals on undeveloped properties and the portion of administrative expenses directly related to the exploration for and development of oil and gas reserves. Proceeds on disposition of properties are ordinarily deducted from costs without recognition of profit or loss. Such costs are depleted by the unit of production method based on estimated proven petroleum and natural gas reserves.

Depreciation: Production and other equipment are stated at cost and depreciation is provided on the straight line basis at rates varying from seven to fifteen per cent.

Mining Operations: The Company defers all expenditures on mineral claims and the related exploration and development. These costs are written off when a project is determined to have no economic viability or on the basis of economic units of recoverable reserves if economic viability exists.

Note B — Change in Accounting Practice

During the year the Company modified its method of accounting for petroleum and natural gas properties to include that portion of administrative expenses related to the exploration for and development of petroleum and natural gas reserves. As a result, net loss and deficit at November 30, 1978 have been reduced by $80,605.

Note C — Share Capital

During the year a group of investors entered into an exploration agreement with the Company under which the investors agreed to spend $2,422,500 on exploration and development of the Company's resource interests. As consideration the investors will be issued 850,000 fully paid shares of the Company and the income tax deductions related to the expenditures will be for the benefit of the investors. Under the terms of the agreement the investors' funds are not refundable. Shares are to be issued in lots of 10,000 as expenditures are made. As at November 30, 1979 funds remaining to be spent under the agreement amounted to $1,224,211 and there were 610,000 allotted but unissued shares subject to the agreement. Costs of issue amounting to $63,412 have been deducted from the applicable share capital.

Note D — Bank Loan

The bank loan is secured by shares of Bellanca Developments Ltd. and Howard Resources Ltd.

Note E — Contingent Liability

The Company is contingently liable as guarantor of indebtedness of Bellanca Developments Ltd. amounting to $1,148,510. The $130,000 debenture receivable from Bellanca Developments Ltd. has been postponed in favour of the Bank under this guaranty.

Note F — Key Employee Stock Option Plan

During the year the Company reserved 400,000 shares for issue under the terms of a Stock Option Plan enabling certain officers and employees, as designated from time to time by the directors, to purchase shares of the Company at a price of not less than 85% of the closing market price at the date the option is granted. The Plan provides for exercise of one-fifth of the option per year cumulatively over a five year period. At November 30, 1979 options were outstanding to officers to purchase 225,000 common shares at prices ranging from $2.85 to $3.19 per share. These options expire in 1985.

Note G — Income Taxes

Losses of $64,105 are available to be applied to reduce future income taxes until 1982.

Note H — Remuneration

Remuneration of directors and officers of the Company amounted to $111,601 (1978 — $78,957).

Note I — Earnings Per Share

The basic loss per share is calculated on the weighted average number of shares outstanding during the year. For purposes of this calculation the 850,000 shares referred to in Note C have been included from the date of receipt of cash.

	1979	1978
Loss per share	**(0.1)¢**	(0.1)¢

Note J — Comparative Figures

The comparative figures for the previous year have been reclassified where necessary to conform with the current year's presentation and have been restated to give effect to the change in accounting practice as explained in Note B.

Note K — Subsequent Event

On January 29, 1980, the Company finalized an exploration agreement with two investors under which the investors agreed to spend $5,000,100 on exploration and development of the Company's resource interests. As consideration the investors will be issued 1,190,500 fully paid shares of the Company at $4.20 per share and the income tax deductions related to the expenditures will be for the benefit of the investors. The $5,000,100 has been received by the Company and the shares will be issued from time to time as the expenditures are made.

Auditors' Report

To the Shareholders
Precambrian Shield Resources Limited

We have examined the consolidated balance sheet of Precambrian Shield Resources Limited and Subsidiary as at November 30, 1979 and the consolidated statements of loss and deficit and changes in financial position for the year then ended. Our examination was made in accordance with generally accepted auditing standards and accordingly included such tests and other procedures as we considered necessary in the circumstances.

In our opinion, these consolidated financial statements present fairly the financial position of the Company as at November 30, 1979 and the results of its operations and changes in its financial position for the year then ended, in accordance with generally accepted accounting principles applied, after giving retroactive effect to the change in the method of capitalization of general and administrative costs referred to in Note B, on a basis consistent with that of the preceding year.

Ernst & Whinney

Calgary, Alberta
February 21, 1980

Chartered Accountants

Lithographed by
Calgary, Alberta, Canada